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SENSITIVE
SIPDIS

STATE PASS USAID AFR/SD FOR CURTIS, ATWOOD AND SCHLAGENHAUF
STATE PASS TO USTDA-PAUL MARIN, EXIM-JRICHTER
STATE PASS TO USTR-LAURIE-ANN AGAMA
STATE PASS TO OPIC-BARBARA GIBIAN AND STEVE SMITH
STATE FOR EEB/ESC/IEC/ENR-DAVID HENRY, CBA
STATE PASS TO S/CIEA-DAVID GOLDWYN AND MICHAEL SULLIVAN
JOHANNESBURG FOR JASON NAGY
USDOE FOR GEORGE PERSON AND THOMAS SPERL
TREASURY FOR ANTHONY IERONIMO, ADAM BARCAN
DOC FOR 3317/ITA/OA/BURRESS AND 3130/USFC/OIO/ANESA/REED

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SUBJECT: S/CIEA GOLDWYN DISCUSSES NIGERIA'S POWER SECTOR WITH POWER
AND FINANCE MINISTRIES

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expected to add 4,770 megawatts to the national grQ*Q^tional Gas Company (NGC). The power sector needs 1,730 million standard cubic feet of gas per day to adequately reach the 6,000 megawatt goal.

IMPORTANCE OF THE ELECTRICITY TARIFF

16. (SBU) Goldwyn said Nigeria's new Multi-year Tariff Order (MYTO) represented a good start towards a full-cost-recovery tariff, but more work needs to be done to encourage independent power producers (IPP) and alternative and renewable energy sources. He said moving beyond the 10,000 megawatts goal to be completed by the end of 2011 would require private sector projects and funding. Goldwyn noted that the U.S. Department of Energy could provide expert advice on micro and distributed generation through the proposed Bi-National Committee on Energy and Investment. Models from countries that have moved from underinvestment to fully self-sufficient utilities, like the Philippines, Thailand, and India, also could be provided.

17. (SBU) Goldwyn underscored that deep gas reserves will be needed to support the post-2011 target and security of the national grid. Picking up associated gas from flaring for power generation might be a "short-term fix" but should not be relied on for a long-term source of power. Gas prices should be market-based regardless of the Gas Master Plan. The electricity tariff also needs to provide a lifeline provision for the poor and introduce incentives for renewable generation projects.

18. (SBU) Goldwyn continued that independent power producers (IPPs) will not invest in power generation until the following conditions exist:

- Approved power purchase agreements (PPA);
- A designed "off-taker" (buyer) for generated electricity;
- Loan guarantees for payments to the IPPs;
- Access to gas, coal, and other fuel agreements without discrimination; and
- A new tariff model that reflects market-based prices and accounts for currency fluctuations because the current wholesale price in the Multi-year Tariff Order (MYTO) is not sufficient. (NOTE: The GON required international oil companies to build and operate power plants (IPP) totalling about 4,000 megawatts by 2011 that they would not have built on their own. END NOTE.)

19. (SBU) Babalola said a standard power purchase agreement framework is being concluded. This would be an international standard for all stakeholders coming into the Nigerian power sector. He also said

that a standard gas supply agreement framework for gas and power producers is near completion, stressing that all the policy frameworks are essential to attract investors as well as boost accessibility to external funds for private sector participation in the power sector. Babalola indicated that some of the proposed and licensed IPP projects are not viable. He explained that many of the related firms have no experience in building or operating power plants.

RENEWABLES AND NEAR-TERM ALTERNATIVES

10. (SBU) Babalola said Nigeria's electricity capacity and customer service problems include distribution and transmission grid upgrades and an insatiable hunger for gas to produce electricity. Babalola stated that some of the existing power plants will now be configured

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to run on either liquefied petroleum gas (LPG) or synthetic natural gas (SNG) instead of relying on natural gas that can only be supplied through pipelines. He added that running these plants on Low Pour Fuel Oil (LPFO) is highly cost-inefficient. He noted that power plants like Papalanto, Gereg, and Omotosho will be listed in the LPG/SNG conversion strategy so the GON can power idle plants in the absence of natural gas.

11. (SBU) Babalola added that the GON would also explore potential mini-hydro power stations across the country to increase output. The GON would embark on coal-fired power plants in at least five states, including Enugu, Kogi, Nasarawa, Gombe, and Benue. These states could each effectively run a 200 to 300 megawatt coal-fired power plant.

12. (SBU) Following the meeting with Ministry of Power, Goldwyn met with Ministry of Finance Permanent Secretary Dr. Ochi Achi Niu. In contrast to the Power Ministry, Niu agreed with the need to reform Nigeria's power sector and wean the majority of the population from unsustainable subsidies. Niu supported Goldwyn's arguments in favor of the need to: develop the "off-taker" for the distribution companies; implement a full-cost-recovery tariff that allows for fuel price adjustment; include lifeline pricing for the poor, and provide a market-based price for gas.

13. (SBU) Niu welcomed the proposed U.S.-Nigeria Bi-National Commission on Energy and Investment. Niu said the Ministry wants to support the benefits of a market-driven power sector from the perspective of cost, liability, and associated economic growth. Goldwyn suggested the Nigerian Electricity Regulatory Commission (NERC) should be included in the Bi-National Commission participation to further these discussions. Niu appreciated Goldwyn's offer to assist in the energy sector and to share experiences from the U.S. transition from a state-regulated to a market-driven sector. Niu also asked for case studies of other countries that had moved from underinvestment to fully self-sufficient utilities.

COMMENT

14. (SBU) The ministries of Power and Finance have markedly different outlooks toward a fully market-driven power sector with help from the U.S. via the Bi-National Commission. The Ministry of Power refuses to admit the urgency of Nigeria's power sector crisis and is reluctant to move too fast or outside the current sector organization, while the Ministry of Finance is open and eager to do what it can to assist this effort and lessen the budgetary burden of current system while also encouraging investment in this sector. Failure to implement the reforms for reasons of caution or corruption will delay the growth and prosperity expected from the achievement of the Ministry of Power's 6,000 and 10,000 megawatt goals.

15. (U) This cable has been cleared by S/CIEA.

SANDERS